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C O N F I D E N T I A L SECTION 01 OF 04 BAKU 000464

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BUDAPEST TO DAS BRYZA

E.O. 12958: DECL: 04/18/2017  
TAGS: [PREL](#) [PGOV](#) [AJ](#) [ENRG](#) [TX](#) [TU](#) [IR](#)  
SUBJECT: AZERBAIJAN: SOCAR VP SAYS IMPOSSIBLE TO TO PREDICT  
2012 GAS VOLUMES

REF: BAKU 463

Classified By: Ambassador Anne E. Derse, Reasons 1.4 (b,d)

[1](#)1. (U) This is an action cable. Please see paragraph 18.

[1](#)2. (C) SUMMARY. According to SOCAR Vice-President Elshad Nasirov, it is impossible to estimate, "even within five to ten billion cubic meters," how much gas Azerbaijan would have available for export on or around 2012. Additionally, the GOAJ will not enter into binding commercial obligations based on best-case gas production scenarios, a lesson it learned by its problems with BP and Shah Deniz gas production. Nasirov said Azerbaijan will seek to export to Europe all gas surplus to its domestic needs and its commercial commitments to Georgia and Turkey. However, Azerbaijan cannot carry the burden of Caspian energy supply to Europe alone, and as such, European consumers should be looking not just to Azerbaijan, but also to Kazakhstan, Turkmenistan and Uzbekistan. Embassy believes that given GOAJ reluctance to commit publicly to "exporting twenty bcm by 2012" or any similar declaration, we need to focus on both moving forward Azerbaijan-Turkey transit talks and also helping to facilitate and expedite specific commercial conversations between Azerbaijan and European gas consumers such as Edison, DEPA and OMV. END SUMMARY.

[1](#)3. (C) In an April 16 meeting, SOCAR Vice-President Elshad Nasirov repeated to Energy Officer the message which he said had been his main point at the February Paris IEA conference: Azerbaijan stands ready to export to Europe all gas in excess of its commitments to its domestic market, Georgia and Turkey. However, the whole project of providing gas supply diversification to Europe should not be loaded on the relatively small shoulders of Azerbaijan, Nasirov said; Europe should also be reaching out to Kazakhstan, Uzbekistan and Turkmenistan. Azerbaijan would have transparent long-term transit fees to facilitate the transmission of gas from the Eastern Caspian, and was willing to host a working group that would facilitate bringing Kazakh and Turkmen companies to Baku to meet with EU energy consumers. (He said this was different from a follow-on IEA conference, which was left to the MFA and Ambassador at Large for Energy Shamil Aleskerov.)

[1](#)5. (C) However, Nasirov said that given the major variables

involved, many of which were still uncertain, it was "impossible to estimate, even within five to ten bcm (billion cubic meters)" how much gas Azerbaijan would have available for export o/a 2012. As such, SOCAR had "had a hard time" giving its approval to the draft of the recent USG-GOAJ Energy MOU, since it did not want to be locked into commitments that it might not be able to keep to supply export gas for pipelines. With respect to the April 13th OMV-SOCAR meeting, Nasirov said that SOCAR's understanding was that the USG-GOAJ Energy MOU signaled a clear preference for TGI over Nabucco. EnergyOff explained that at least on the USG side there was no such preference, but that USG support for Nabucco was predicated on the absence of Iranian gas. Nasirov also said that when OMV CEO Ruttenstorfer had previously visited, SOCAR President Abdullayev had told him that Azerbaijan would have 3.5 bcm for Nabucco o/a 2012, which Ruttenstorfer said "would be enough to get Nabucco started."

¶6. (C) In considering how much gas might be available, Nasirov said that one needs to separate analytical from commercial considerations. Although it is theoretically possible for Azerbaijan to have significant (20-40 bcm) gas production o/a 2012 in a best-case scenario, which would include Turkmen gas from the Livanovo field in Block One flowing through Azerbaijan, SOCAR does not want to enter into binding commercial obligations based on best-case scenarios.

BP HAS COST GOAJ MONEY  
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¶7. (C) Nasirov speculated that with the approximately 8 bcm/a from Shah Deniz Phase One (SD1) and best case 16 bcm/a from

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Shah Deniz Phase Two (SD2), Azerbaijan could have approximately 24 bcm production from the Shah Deniz field alone o/a 2012. But Azerbaijan did not want to "repeat the same mistakes" with SD2 that it made with SD1, where it agreed to export seven bcm/a and keep only 1.5 bcm/a for itself. He pointed out that the SD1 commercial agreements were made at a time and based on calculations springing from a Russian gas price of USD 42 per thousand cubic meters, and due to these commitments Azerbaijan now found itself in a position where it has to sell gas to Turkey at an extremely uncompetitive price (USD 120 per thousand cubic meters) at a time when the commercial price of gas is around USD 235 per tcm, Brent is at USD 68 and fuel oil approximately 450 dollars per ton.

¶8. (C) Nasirov stressed that he was not purposefully "lowballing" gas export estimates; he just didn't want to over-commit Azerbaijan in the absence of any certainty on amounts of export gas available. He pointed to the extensive SD1 production delays and current gas production volumes much lower than anticipated. Currently, two of the three wells supposed to be producing oil are not working, with no guarantee that the fourth well won't suffer from the same "design flaws" that BP says have shut down the third well. (He described BP's problems with the Shah Deniz wells as a result of well design that was unnecessarily complicated and experimental.) Regardless of the reason for these delays, due to BP's inability to bring in the Shah Deniz production on time, Azerbaijan has found itself in a position where it cannot live up to its commercial obligations without incurring losses of millions of dollars by being forced to burn mazut. Azerbaijan does not want to find itself in a position again where it suffers from the inability of a commercial company over whom it has no control to live up to its obligations. (COMMENT: President Aliyev has underscored this point strongly to the Ambassador - Reftel).

¶9. (C) Nasirov also pointed out that the amount of gas Azerbaijan will have available for export is largely dependent upon BP, since it is largely the Shah Deniz Consortium's gas that will be available. As such, BP would

have better knowledge of how much gas will be available o/a 2012 than would SOCAR. Concerning SOCAR's own gas production, he said that it was likely that SOCAR would produce 5.5 bcm in 2007 and 6.5 bcm in 2008. He confirmed press accounts that SOCAR would not pursue development of the Nakhchivan field.

¶10. (C) Nasirov also pointed out that an important component of Azerbaijan's available gas for export o/a 2012 would be the ability to rationalize domestic gas usage. Another factor would be how much gas would be needed as feedstock for planned petrochemical plants. He added that a number of petrochemical plant projects pitched to SOCAR are predicated on unrealistically low gas prices.

#### ACG DEEP GAS

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¶11. (C) EnergyOff pointed out that another significant source of gas is ACG deep gas, and asked how discussions were going with BP. Nasirov was careful to point out that SOCAR had not yet officially begun to consider developing ACG deep gas, since under the terms of the existing PSA once SOCAR has begun to do so, it triggers a series of commitments with the Azerbaijan International Oil Consortium (AIOC). However, he said that SOCAR would receive a presentation from BP on ACG Deep Gas development on April

¶18. (COMMENT: Embassy is seeking a readout from BP on this and related issues).

#### TGI TRANSIT INFORMATION

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¶12. (C) Nasirov said that SOCAR is still in the process of gathering information relevant to any commercial decisions re pipelines. TGI has not yet given clear commercial figures for transit, absent which SOCAR cannot begin to make any commercial decisions. With OMV, SOCAR will soon be receiving

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needed commercial information from them, and he disputed the allegation (relayed to Embassy by OMV) that it would take two months for SOCAR to sign a four-page confidentiality agreement that would allow OMV to pass commercial information to SOCAR. Nasirov pointed out SOCAR feels "more confident" about Nabucco than it does with TGI, as Turkey has made no real commitment to the latter, whereas in the former project Turkish participation would be controlled." He pointed out that SOCAR had already received transit tariff information concerning the Trans-Adriatic Pipeline (TAP), adding that according to the Swiss Energy Trading company EGL, the Swiss government was prepared to sign a transit agreement with Turkey.

#### SD2 MARKETING

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¶13. (C) Nasirov said that there "should be more state involvement" in gas sales, as it makes "everything easier and quicker." As such, Nasirov confirmed rumors that SOCAR would seek a greater role in the marketing of SD2 gas. (Statoil is the marketer for SD1; no decision has yet been made re marketing of SD2.)

#### TKM-IR-AZ GAS ROUTE?

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¶14. (C) In response to EnergyOff's question, Nasirov said that in keeping with longstanding custom no one from SOCAR would participate in the upcoming Tehran Oil and Gas Exhibition. However he said he would be traveling to Tehran on April 23, to continue discussions of a gas deal with Turkmenistan in which the gas would transit Iran before entering Azerbaijan. He asked if the USG would "have any problems" with such a deal. EnergyOff said that he would

check back with Washington for specific guidance.

¶15. (C) In an interesting historical footnote, Nasirov said that in October 2006 he had been recommending to the GOAJ that it "call Turkey's bluff" about its being ready to receive gas, and nominate volumes for Turkey. He pointed out that the agreement for provision of gas to Turkey did not specify that the gas come from Shah Deniz, and he wanted to send Azerbaijani gas to Turkey as soon as possible, to start the clock running on the one-year trigger date after which negotiations could begin for increasing the price of gas supplied to Turkey. However, SOCAR did not have the deciding voice in AGSC, which felt that such a strategy would "irritate Botas."

COMMENT AND ACTION REQUEST

¶16. (C) Nasirov makes a good point about the undesirability of over-commitment on specific volumes in the face of imperfect knowledge about future gas volumes and transit arrangements, especially given the GOAJ's experience with SD1. President Aliyev and Energy Minister Natiq Aliyev have underscored the same message to the Ambassador: Azerbaijan is committed to delivering as much gas to Europe as possible, and to that end is working on all fronts to accelerate production. Results, however, are not solely in the GOAJ's hands, and the GOAJ wants help in pushing BP to also make a public commitment to delivering Azerbaijani gas to Europe.

¶17. (C) Despite the ambient uncertainties, given the long timelines involved with gas sales the GOAJ will have to make some 'leap of faith' if it wishes to secure contracts with TGI, Nabucco or any other pipeline. The GOAJ has signaled its strong willingness to export gas to Europe, both in the October 2006 GOAJ-EU Energy MOU, the March 2007 USG-GOAJ Energy MOU, and in recent conversations. It is clear, both from this conversation and from the Ambassador's April 16 one-on-one meeting with President Aliyev (reftel) that the GOAJ is not ready to commit publicly to "exporting 20 bcm by 2012" or any similar declaration. A strong clear public signal of Azerbaijan's and BP's political intent will be valuable and we will continue to urge such a signal. At the same time we need to seek to focus GOAJ attention on achieving specific progress in transit talks with Turkey and

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in bilateral communication with European potential customers of Azerbaijani gas such as Edison, DEPA and OMV. Azerbaijan is concerned about appearing "too eager" in its negotiations with European commercial entities, as Azerbaijan feels it might weaken its commercial position by so doing. As such, attempts to unilaterally move Azerbaijan towards Edison, IGI and OMV should be deferred in favor of a more multilateral approach, in conjunction with colleagues in Athens, Rome, Austria and other locations, in which we seek to "move the ball forward" in contacts between Azerbaijan European potential consumers such as Edison, DEPA and OMV.

¶18. (C) Separately, Embassy would like guidance to be relayed back to SOCAR concerning the USG position on a Turkmenistan-Azerbaijan gas deal that would include transit through Iran.  
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